

**Internal Revenue Service**

Number: **200709037**

Release Date: 3/2/2007

Index Number: 368.00-00, 368.03-00,  
368.08-00, 368.08-06

Department of the Treasury  
Washington, DC 20224

[Third Party Communication:  
Date of Communication: Month DD, YYYY]

Person To Contact:  
, ID No.

Telephone Number:

Refer Reply To:  
CC:CORP:B04  
PLR-136044-06

Date:  
November 13, 2006

Legend:

Target =

Acquiring =

Shareholder =

a =

State A =

Business A =

Dear :

This responds to your July 25, 2006 letter requesting rulings as to certain federal income tax consequences of a proposed transaction. The information provided in that request is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the materials

submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

### Summary of Facts

Target is a State A corporation that is engaged in Business A. Target has one class of voting common stock outstanding. Shareholder owns all of the outstanding voting common stock of Target. Acquiring is a publicly held corporation that has one class of common stock outstanding. Target owns approximately a percent of the common stock of Acquiring. The stock of Acquiring is Target's largest asset.

### Proposed Transaction

For what is represented to be a valid business purpose, Target and Acquiring will engage in the following transaction (the "Proposed Transaction"):

- (i) To the extent practicable, Target will sell its assets other than the Acquiring shares to third parties and possibly Shareholder. The sales proceeds will be used to purchase additional shares of Acquiring common stock.
- (ii) Target will transfer all of its Acquiring shares (the "Old Acquiring Shares") to Acquiring in exchange for a number of newly issued or treasury Acquiring common shares (the "New Acquiring Shares") equal to the number of Old Acquiring Shares owned by Target on the date of the exchange (the "Exchange"). In connection with the exchange, Acquiring will not assume any Target liabilities or receive any Target assets which are subject to liabilities.
- (iii) Within one year of step (ii) above, Target will distribute its New Acquiring Shares to Shareholder. Target will then initiate the dissolution process. Steps (ii) and (iii) are collectively referred to as the "Downstream Reorganization."

### Representations

The following representations have been made regarding the Proposed Transaction:

- (a) The fair market value of the New Acquiring Shares received by Shareholder will approximately equal the fair market value of the Target stock surrendered in the exchange.

(b) During the five-year period ending on the date of the Downstream Reorganization: (a) neither Acquiring nor any person “related” (as defined in Treas. Reg. Section 1.368-1(e)(3)) to Acquiring has acquired Target shares with consideration other than Acquiring shares; (b) neither Target nor any person “related” (as defined in Treas. Reg. Section 1.368-1(e)(3) without regard to Treas. Reg. Section 1.368-1(e)(3)(i)(A)) to Target will have acquired Target shares with consideration other than Acquiring shares or Target shares; and (c) no distribution will have been made with respect to the stock of Target, other than ordinary, normal, regular dividend distributions made pursuant to historic dividend paying practice of Target, either directly or through any transaction, agreement or arrangement with any other person.

(c) At least 40% of the proprietary interest in Target will be exchanged for Acquiring common stock and will be preserved (within the meaning of §1.368-1(e)(1)(i)).

(d) Acquiring has no plan or intention to reacquire, directly or through a related person (within the meaning of §1.368-1(e)(3)), any of its stock issued in the transaction.

(e) Acquiring will acquire at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets held by Target immediately before the transaction. For this representation, amounts paid by Target to dissenters (if any), amounts used by Target to pay its reorganization expenses, amounts paid by Target to shareholders who receive cash or other property, amounts paid by Target to Acquiring for Acquiring’s expenses incurred in the transaction, and all redemptions and distributions (except for regular, normal dividends) made by Target immediately before the transfer will be included as assets of Target held immediately before the transaction.

(f) Acquiring has no plan or intention to sell or otherwise dispose of any of the assets of Target acquired in the transaction.

(g) Target will distribute the stock, securities, and other property it receives in the transaction, and its other properties, in pursuance of the plan of reorganization.

(h) There are no liabilities of Target that will be assumed (within the meaning of §357(d)) by Acquiring nor are there any liabilities to which the transferred assets of Target will be subject.

(i) Following the transaction, Acquiring will continue the historic business of Target or use a significant portion of Target’s business assets in a business.

(j) Target will reimburse Acquiring for all reasonable expenses incurred by Acquiring in connection with the transaction. Target and Shareholder will pay their respective expenses, if any, incurred in connection with the transaction.

(k) There is no inter-corporate indebtedness existing between Acquiring and Target.

(l) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(m) Acquiring does not own, directly or indirectly, nor has it owned during the past five years, directly or indirectly, any stock of Target.

(n) Target is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).

### Rulings

Based solely on the information submitted and the representations set forth above, we rule as follows regarding the Proposed Transaction:

(1) The Downstream Reorganization will qualify as a reorganization under §368(a)(1)(C). Acquiring and Target will each be a “party to a reorganization” under §368(b).

(2) Target will recognize no gain or loss on the transfer of its Old Acquiring Shares to Acquiring solely in exchange for the New Acquiring Shares in the Exchange (§ 361(a)).

(3) Target will recognize no gain or loss on its distribution of the New Acquiring Shares to Shareholder or to Target’s creditors ( § 361(c)(1) and (c)(3)). Target will recognize gain on the distribution of other appreciated property, if any, to Shareholder or to Target’s creditors as if such property had been sold by Target at its fair market value.

(4) Acquiring will recognize no gain or loss on its receipt the Old Acquiring Shares solely in exchange for the New Acquiring Shares in the Exchange (§ 1032(a)).

(5) Shareholder will not recognize gain or loss on the exchange of its Target stock solely for the New Acquiring Shares (§ 354(a)(1)).

(6) Shareholder’s basis in the New Acquiring Shares will equal the basis of the Target stock surrendered therefor (358(a)).

(7) Shareholder’s holding period in the New Acquiring Shares receive in the transaction will include the period during which the stock of Target surrendered in exchange therefore was held, provided that the Target stock is held as a capital asset by the Target shareholder on the date of the exchange (§ 1223(1)).

(8) Under § 381(a) and § 1.381(a)-1, the taxable year of Target will end upon the completion of the Downstream Reorganization, and Acquiring will succeed to and take into account the items of Target described in Section 381(c), subject to the provisions and limitations of §§ 381, 382, 383, and 384 and regulations.

#### Caveats

We express no opinion on the tax effect of the Proposed Transactions under any other provision of the Code and regulations, or the tax effect of any condition existing at the time of, or effect resulting from, the Proposed Transaction that is not specifically covered by the rulings set forth above.

#### Procedural Statements

This letter is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter should be attached to the federal income tax return of each taxpayer involved for the taxable year in which the Proposed Transaction covered by this ruling letter is completed. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this letter ruling.

In accordance with the power of attorney on file in this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

---

Richard K. Passales  
Senior Counsel, Branch 4  
Office of Associate Chief Counsel  
(Corporate)